

MEMORANDUM

TO: All Property Valuation Administrators

FROM: David L. Gordon, Executive Director
Office of Property Valuation



DATE: 26 March, 2008

SUBJECT: Recommended guidelines for Assessment of Vacant Lots and New Homes in New Residential Developments

In an effort to assist property valuation administrators with their constitutional duty of assessing all property at its fair cash value, the Office of Property Valuation has developed recommended guidelines for the assessment of vacant lots and newly constructed homes located within a new residential development. In both situations, property valuation administrators should do their best to determine the estimated fair cash value of each type of property.

Assessment of vacant lots in a new residential development

The major issue confronting a property valuation administrator when assessing vacant lots in a new residential development is the initial valuation of the lots or the assessment of the remaining lots after one or more of the lots are sold. If the lots in the development are similar in size and slope, it would be expected that the selling price listed for each lot would be about the same. If it is a development with many lots, there may be lots of varying sizes and slopes with a large variation in asking prices. Because it is a well established practice to negotiate the final cost of a real estate purchase, the price the developer asks for a lot may actually be more than the selling price. In an arms-length transaction, the selling price would be a good indication of the estimated fair cash value. The first lots sold in a new development are going to be the most desirable lots, bringing the best price. The remaining lots will bring a lower sale price. Additionally, if an offer was accepted to purchase most or all of the lots, it is likely that the final price would be less than the asking price of each individual lot. Other factors in valuing unsold developed lots can include market conditions, holding costs (interest and maintenance), marketing costs (commissions and advertising), and entrepreneurial profit, all of which are included in the final sales price. This information can be obtained from a local builder/developer. For these reasons, it is acceptable to the Office of Property Valuation if the property valuation administrator determines that vacant lot assessments in a new residential development should be less than the listed sale price. It is also acceptable for remaining lots to be assessed at a value lower than the sale price of the first lots sold. Documentation supporting the assessed value needs to be maintained by the property valuation administrator.

Assessment of newly constructed homes in a new residential development

The initial valuation of a newly constructed home in a new subdivision can be a difficult task. Although the sales comparison approach to estimate a fair cash value is usually preferred for residential property, this method may not be possible to use in a new development. For this reason, the cost approach may be the most reasonable way to begin the estimate of a newly constructed home's fair cash value. If the builder will provide your office with actual cost data, then that information can be used as a starting basis for the estimate of fair cash value. Just as with vacant lots, other factors in valuing unsold model homes can include market conditions, holding costs (interest and maintenance), marketing costs (commissions and advertising), and entrepreneurial profit, all of which are included in the final sales price. This information can be obtained from a local builder/developer. Standard cost manuals can also be used in a similar manner.

The Office of Property Valuation understands that an asking price for a new home may be more than the actual selling price. For this reason, it is acceptable to the Office of Property Valuation if the property valuation administrator determines that new house assessments in a new residential development are less than the listed sale price. Documentation supporting the assessed value needs to be maintained by the property valuation administrator.

If the sales approach is used, the assessment of the lots and homes will need to be reviewed as needed when sales begin to occur.

Every county's situation will be unique with regard to assessing this type of property. This memorandum will support a property valuation administrator who determines that, based upon proper analysis, the assessed value of a vacant residential lot or newly constructed home should be lower than the developer's asking price. However, keep in mind that these types of assessments are subject to review in the same manner as all other real property assessed values and appropriate documentation supporting the assessments needs to be maintained.

If you have any questions concerning this memorandum, please do not hesitate to contact Susan Bailey or me. Thank you for your continued efforts to ensure that all property within your county is assessed at its estimated fair cash value.